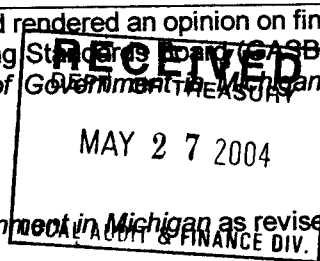


## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		<b>Local Government Name</b> AuGres Sims Fire Authority	<b>County</b> Arenac
<b>Audit Date</b> March 31, 2004	<b>Opinion Date</b> April 19, 2004	<b>Date Accountant Report Submitted to State:</b> April 19, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.



We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |  |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).   |

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686	<b>City</b> Bay City	<b>State</b> MI	<b>Zip</b> 48707
<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.			

AUGRES SIMS FIRE AUTHORITY

Orange County, Michigan

<b>RECEIVED</b> DEPT. OF TREASURY GENERAL PURPOSE FINANCIAL STATEMENTS ✓ MAY 27 2004 Year Ended March 31, 2004 LOCAL AUDIT & FINANCE DIV.
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AUGRES SIMS FIRE AUTHORITY  
Arenac County, Michigan

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# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

April 19, 2004

To the Fire Board  
AuGres Sims Fire Authority  
Arenac County, Michigan

We have audited the accompanying general purpose financial statements of the AuGres Sims Fire Authority, Arenac County, Michigan, as of March 31, 2004, and for the year then ended as listed in the table of contents. These general purpose financial statements are the responsibility of the AuGres Sims Fire Authority's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Fire Authority has not maintained a record of its general fixed assets, and accordingly, a statement of general fixed assets, required by generally accepted auditing principles, is not included in the general purpose financial statements.

In our opinion, except that the omission of the financial statement described above results in an incomplete presentation, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the AuGres Sims Fire Authority, Arenac County, Michigan, as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

AUGRES SIMS FIRE AUTHORITY  
Arenac County, Michigan

COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUPS EXHIBIT A  
March 31, 2004

	<u>Governmental Fund Type</u>	<u>Account Group General Long- Term Debt</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>		
<u>Assets</u>			
Cash in bank	177 905 13	-	177 905 13
Due from other units	27 795 98	-	27 795 98
Amount to be provided for the retirement of general long-term debt	<u>-</u>	<u>99 192 56</u>	<u>99 192 56</u>
Total Assets	<u>205 701 11</u>	<u>99 192 56</u>	<u>304 893 67</u>
<u>Liabilities and Fund Equity</u>			
Liabilities:			
Note payable	<u>-</u>	<u>99 192 56</u>	<u>99 192 56</u>
Fund equity:			
Fund balance:			
Unreserved:			
Undesignated	<u>205 701 11</u>	<u>-</u>	<u>205 701 11</u>
Total Liabilities and Fund Equity	<u>205 701 11</u>	<u>99 192 56</u>	<u>304 893 67</u>

The accompanying notes are an integral part of these financial statements.

AUGRES SIMS FIRE AUTHORITY  
Arenac County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B

Page 1

	<u>Total (Memorandum Only) General Fund</u>
Revenues:	
Township of AuGres	39 144 01
Township of Sims	58 285 23
City of AuGres	20 128 50
Charges for services	3 600 00
Interest	775 44
Refunds and reimbursements	<u>2 470 00</u>
Total revenues	<u>124 403 18</u>
Expenditures:	
Public safety – fire protection:	
Board wages	1 375 00
Firemen wages	9 935 00
Payroll taxes	911 12
Insurance – workmen's compensation	3 876 00
Insurance – building	5 919 00
Insurance – equipment	6 771 00
Meeting expenses	853 00
Audit	1 200 00
Professional services	362 50
Building lease	30 900 00
Utilities	5 669 13
Repairs and maintenance - building	2 586 29
Repairs and maintenance - equipment	1 446 32
Operating supplies	3 816 32
Gas and fuel	496 18
Telephone	747 04
Miscellaneous	909 53
Capital outlay	795 84
Debt service	<u>19 520 14</u>
Total expenditures	<u>98 089 41</u>

The accompanying notes are an integral part of these financial statements.

AUGRES SIMS FIRE AUTHORITY  
Arenac County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES

Year Ended March 31, 2004

EXHIBIT B

Page 2

	<u>Total (Memorandum Only)</u>
Excess of revenues over expenditures	26 313 77
Fund balance, April 1	<u>179 387 34</u>
Fund Balance, March 31	<u><u>205 701 11</u></u>

The accompanying notes are an integral part of these financial statements.

AUGRES SIMS FIRE AUTHORITY  
Arenac County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND      EXHIBIT C  
Year Ended March 31, 2004      Page 1

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenues:			
Township of AuGres	33 000 00	39 144 01	6 144 01
Township of Sims	58 000 00	58 285 23	285 23
City of AuGres	20 000 00	20 128 50	128 50
Charges for services	3 600 00	3 600 00	-
Interest	1 000 00	775 44	(224 56)
Refunds and reimbursements	<u>-</u>	<u>2 470 00</u>	<u>2 470 00</u>
Total revenues	<u>115 600 00</u>	<u>124 403 18</u>	<u>8 803 18</u>
Expenditures:			
Public safety – fire protection:			
Board wages	1 800 00	1 375 00	(425 00)
Firemen wages	15 000 00	9 935 00	(5 065 00)
Payroll taxes	1 200 00	911 12	(288 88)
Insurance – workmen's compensation	3 200 00	3 876 00	676 00
Insurance – building	6 000 00	5 919 00	(81 00)
Insurance – equipment	7 000 00	6 771 00	(229 00)
Meeting expenses	1 500 00	853 00	(647 00)
Audit	1 200 00	1 200 00	-
Professional services	1 500 00	362 50	(1 137 50)
Building lease	31 000 00	30 900 00	(100 00)
Utilities	5 000 00	5 669 13	669 13
Repairs and maintenance – building	3 500 00	2 586 29	(913 71)
Repairs and maintenance – equipment	5 000 00	1 446 32	(3 553 68)
Operating supplies	4 000 00	3 816 32	(183 68)
Gas and fuel	1 200 00	496 18	(703 82)
Telephone	1 000 00	747 04	(252 96)
Miscellaneous	1 000 00	909 53	(90 47)
Contingency	1 500 00	-	(1 500 00)
Capital outlay - equipment	4 479 00	795 84	(3 683 16)
Debt service	<u>19 521 00</u>	<u>19 520 14</u>	<u>(86)</u>
Total expenditures	<u>115 600 00</u>	<u>98 089 41</u>	<u>(17 510 59)</u>
Excess of revenues over expenditures	-	26 313 77	26 313 77

The accompanying notes are an integral part of these financial statements.

AUGRES SIMS FIRE AUTHORITY  
Arenac County, Michigan

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES

IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

Year Ended March 31, 2004

EXHIBIT C

Page 2

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Fund balance, April 1	<u>-</u>	<u>179 387 34</u>	<u>179 387 34</u>
Fund Balance, March 31	<u>-</u>	<u>205 701 11</u>	<u>205 701 11</u>

The accompanying notes are an integral part of these financial statements.

AUGRES SIMS FIRE AUTHORITY  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of AuGres Sims Fire Authority, Arenac County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Fire Authority contain all the Fire Authority funds and account groups that are controlled by or dependent on the Fire Authority's executive or legislative branches.

The reporting entity is the AuGres Sims Fire Authority. The Fire Authority is governed by an elected Fire Board. As required by generally accepted accounting principles, these financial statements present the Fire Authority as the primary government.

Basis of Presentation

The financial activities of the local unit are recorded in separate funds, categorized and described as follows:

Governmental Fund

General Fund

This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from intergovernmental revenues.

Account Group

General Long-Term Debt Account Group

This account group presents the general long-term debt of the local unit.

AUGRES SIMS FIRE AUTHORITY  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present revenues and other financing sources and, expenditures and other financial uses in net current assets.

The modified accrual basis of accounting is followed by the governmental fund types. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual which is both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures, other than principal and interest on long-term debt, are recorded when the related fund liability is incurred, if measurable. Principal and interest on general long-term debt is recognized when due.

Revenues from local sources consist primarily of property taxes. Property taxes and revenues received from the State are recognized when susceptible to accrual. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Fixed Assets

Purchases of general fixed assets are recorded as expenditures in the General Fund at the time of purchase. The Fire Authority has not established the General Fixed Assets Group of Accounts which is required by generally accepted accounting principles.

Investments

Investments are stated at market.

Receivables

Receivables have been recognized for all significant amounts due to the Fire Authority. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

AUGRES SIMS FIRE AUTHORITY  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Fire Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by the majority vote of the Fire Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Fire Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Fire Board during the fiscal year.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts, and other commitments for future expenditures are not recorded.

AUGRES SIMS FIRE AUTHORITY  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Postemployment Benefits

The Fire Authority provides no postemployment benefits to past employees.

Note 2 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Fire Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Fire Board has designated two banks for the deposit of Fire Authority funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Fire Authority's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>177 905 13</u>

AUGRES SIMS FIRE AUTHORITY  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 2 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	142 509 70
Uninsured and Uncollateralized	<u>35 395 43</u>
Total Deposits	<u>177 905 13</u>

The AuGres Sims Fire Authority did not have any investments as of March 31, 2004.

Note 3 – Changes in General Long-Term Debt

The following is a summary of the changes in general long-term debt.

	<u>Balance 4/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 3/31/04</u>
Note Payable	<u>112 868 21</u>	<u>-</u>	<u>13 675 65</u>	<u>99 192 56</u>

Note 4 – Note Payable

During the fiscal year ended March 31, 2000, the Authority purchased a fire truck for \$205,174.00 which was delivered in the fiscal year ending March 31, 2001. The fire truck was financed in part by a seller financing loan through the Huron Community Bank in the amount of \$150,000.00. The loan is to be repaid in ten equal annual installments of \$19,520.14, including interest at 5.109%.

Following is a summary of the outstanding debt payments:

<u>Due Date</u>	<u>Total</u>	<u>Interest</u>	<u>Principal</u>
11-1-04	19 520 14	4 607 11	14 913 03
11-1-05	19 520 14	4 298 22	15 221 92
11-1-06	19 520 14	3 521 90	15 998 24
11-1-07	19 520 14	2 705 99	16 814 15
11-1-08	19 520 14	1 848 47	17 671 67
11-1-09	<u>19 520 14</u>	<u>947 29</u>	<u>18 572 85</u>
Totals	<u>117 120 84</u>	<u>17 928 98</u>	<u>99 191 86</u>

AUGRES SIMS FIRE AUTHORITY  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

**Note 5 – Fire Hall Lease**

On January 10, 1997, the Authority leased a new fire hall from the City of AuGres, effective February 1, 1997, for a period of ten years.

The lease requires the Authority to pay annual payments to the City of AuGres as follows:

7/1/2004	30 500 00
7/1/2005	29 125 00
7/1/2006	<u>52 750 00</u>
Total	<u>112 375 00</u>

Other provisions of the lease include:

1. The Authority is responsible for all maintenance and repairs.
2. The Authority is to maintain Fire and Casualty insurance coverage of at least \$275,000.00.
3. The Authority is to maintain adequate liability insurance.

Lease expense for the year ended March 31, 2004, was \$30,900.00.

**Note 6 – Deferred Compensation**

The Fire Authority does not have a deferred compensation plan.

**Note 7 – Retirement Plan**

The Fire Authority does not have a retirement plan.

**Note 8 – Risk Management**

The Fire Authority is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Fire Authority has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

AUGRES SIMS FIRE AUTHORITY  
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Note 9 – Total Columns on Combined Statements--Overview

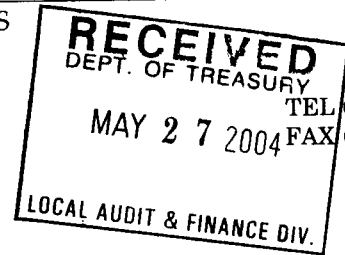
The total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation, because interfund eliminations have not been made in the aggregation of this data.

# **CAMPBELL, KUSTERER & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA  
KENNETH P. KUSTERER, CPA

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BAY CITY, MICHIGAN 48707



## **AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS**

April 19, 2004

To the Fire Board  
AuGres Sims Fire Authority  
Arenac County, Michigan

We have audited the financial statements of the AuGres Sims Fire Authority, for the year ended March 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the AuGres Sims Fire Authority in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

To the Fire Board  
AuGres Sims Fire Authority  
Arenac County, Michigan

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

To the Fire Board  
AuGres Sims Fire Authority  
Arenac County, Michigan

### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which is to be implemented over the next few years. The implementation date of this pronouncement for the AuGres Sims Fire Authority will begin with the year ended March 31, 2004, and will need to be implemented fully by March 31, 2005. The daily operations and recording transactions should not change significantly, however, the Fire Authority will be required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Fire Authority's financial statements and this communication of these matters does not affect our report on the Fire Authority's financial statements, dated March 31, 2004.

### **SUMMARY**

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants